

National Crafts Council -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the National Crafts Council for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018, the Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Council give a true and fair view of the financial position of the institute as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Audit Scope (Responsibility of Auditor for the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the lands of the Sigiriya village assigned to Crafts Council in 2013 was valued at Rs.47,750,000 in the year 2018, the value of those assets had not been stated in the financial statements.	That the assessment value of the year 2018 has been instructed to be included in the financial statements.	The assets owned to the council should be shown in the financial statements.

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| (b) | An amount of Rs.3,010,450 incurred for the hardware required for the point of sale system and purchases of capital assets of Rs.15,002,191 had been written off to income as development expenses instead of being accounted for as fixed assets. Accordingly, the surplus of the year and non-current assets had been understated by that amount in the financial statements. | Waragoda Ceramic Training Center repair and supply of shelves will be capitalized in the year 2022. | Capital assets should be properly shown in the financial statements. |
| (c) | Cabinet approval had been given on 23 December 2008 to take over the craft training centers run by the Sri Lanka Handicrafts Board to the National Crafts Council and the assets that were taken over at a cost of Rs.46,298,422 are currently being used by the council. However, these assets had not been revalued and included in the financial statements. | That the necessary arrangements are being made to revalue these assets and get them into the financial statements. | Assets should be revalued and shown in the financial statements. |
| (d) | The income, expenses and bank balances of the training centers owned by the Crafts Council were not stated in the financial statements and the bank balance value of 83 centers Rs.2,346,214 had not been recorded to account for. | Although not shown in the financial statements, it is presented with the final accounts as an annexure. That instructions have been given to prepare a suitable program in this regard in the future. | The assets of the institutions under the council should be included in the financial statements. |
| (e) | According to the financial statements of the Sri Lanka Handicrafts Board, the balance due to pay to the National Crafts Council was Rs.1,464,905, but the balance due according to the financial statements of the Council was Rs.2,432,122. However, the reasons for this difference had not been identified and adjusted in the financial statements. | That the difference shown by the audit was mentioned and instructions were given to get reconfirmation. | The difference should be recognized and the financial statements should be corrected. |

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| (f) | The total amount of payable expenses of Rs.1,972,268 related to the year under review had not been accounted as accrued expenses as on 31 December 2021. Accordingly, the surplus of the year 2021 was overstated that amount in the financial statements. | The audit has shown that the vouchers were actually given to the Accounts Department in the year 2022, so they have not been included as accrued expenses. | Necessary adjustments should be made in the financial statements. |
| (g) | Although the financial statements showed a net value of Rs.80,947,374 in terms of land and buildings, the ownership of these buildings did not remain with the council. | That the reports on land and buildings currently owned by Crafts Council will be submitted after revaluing assets. | Actions should be taken to take over the ownership of the land. |
| (h) | As of 31 December 2021, there was a difference of Rs. 33,417,590 between the value of 07 items of property, plant and equipment in the financial statements and the corresponding values in the asset register, but the differences had not been investigated and adjusted in the financial statements. | Since it is not possible to find out the reasons for this difference that has been going on for a long time, the assets will be revalued and the asset register will be maintained according to those values. | Differences between fixed assets and schedules should be identified and the assets should be revalued and reconciled. |

1.6 Reference to laws, rules, regulations etc.

With reference to laws, rules, regulations etc.	Non- Compliance	Comments of the Management	Recommendation
(a) Financial Regulations 371 (5) (b) of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 01/2020 dated 28 July 2020	<p>Although the interim advance was to be settled again within 10 days after the completion of the work, a period of time ranging from 20 days to 233 days had been spent to settle the advances with a total value of Rs.2,731,640.</p> <p>There were cases where several advances had been made to the same person before one advance was settled.</p> <p>The 06 advances with a total value of Rs. 114,890 were fully repaid due to non-fulfilment of the relevant work and it took 09 days to 238 days to settle.</p>	<p>They even stopped the salaries of some officials late to settle the advances and instructed them to proceed according to the relevant circulars in the future.</p> <p>That more than one advance under the limit of Rs.100,000 has been given continuously in cases where several development works have been applied at the same time and that instructions have been given to proceed according to the relevant circulars in the future.</p> <p>That a refund has been made due to delay in carrying out the advanced work as planned .</p>	<p>After giving advances as per this circular, arrangements should be made to settle the advances as soon as the works are completed.</p> <p>Actions should be done according to Circular.</p> <p>In cases where it is not possible to perform the relevant work, arrangements should be made to get the money back immediately.</p>
(b) Section 3.1 of Public Administration Circular 30/2016 dated 29 December 2016	<p>After every fuel check after driving a distance of 25000 km or after a major repairing of engine or fuel consumption should be</p>	<p>That the fuel consumption will be checked in the year 2022</p>	<p>Actions should be done according to circular</p>

re-checked after the first occurrence of these issues, but no vehicle had been checked for fuel consumption in this way.

(c) Financial Regulations.137 (5), 138 (8), 138 (3)	<p>In cases where payment approvals for provided goods, they have been checked and accepted correctly, in certifying payment vouchers that the vouchers are correct and complete in every detail and that, if there are any particulars known to him before making payments to the vouchers, they are also duly taken into account etc., although the respective officers are responsible to the accounting officers, on the contrary, 03 cheques of Rs. 5,464,847 had been issued on 31 December 2021 and had not been handed over to the supplier without obtaining the relevant supplies and the officers were still in custody by May 2022. The cheque amounting to Rs. 3,850,740 has been handed over to the concerned institution, but the goods had not been handed over to the council as of the date of this report.</p>	<p>Cheques have not been issued due to the related works not being performed properly and due to deficiencies</p>	<p>Actions should be done according to the Financial Regulation</p>
(d) Section 5.4.8 of the Code of Procurement Guidelines	<p>For the procurement of 379,645 porcelain bullnose strainers and 39,135 reel insulators Provided by Crafts Council for the construction of elephant fence by the Wildlife</p>	<p>That the contractor has arranged to retain 10% of the price of all payments made to the supplier upon failure to furnish a</p>	<p>Actions should be done according to the procurement guidelines.</p>

Conservation Department, performance a performance security of security. not less than 5 percent of the estimated amount should be obtained in case of breach of contract by the contractor, however, performance security had not been obtained in respect of the said procurement.

- (9) Section 5.4.11 of the Code of Procurement Guidelines VAT must be paid on completed works and details of tax payments must be informed to the Auditor General with copy to the Inland Revenue Commissioner before the 15th day of the following month after paying VAT, but the VAT details had not been submitted to the audit. That a copy of the relevant report will be submitted in the future. Act according to the answer.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 10,260,755 and the corresponding deficit in the preceding year amounted to Rs. 1,321,142. Therefore a improvement amounting to Rs. 8,939,613 of the financial result was observed. This growth was mainly due to increase in other income and decrease in gratuity expenses.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation -----	Comments of the Management -----	Recommendation -----
Paragraph 03 of National Budget Circular No. 05/2020 dated August 03, 2020 emphasizes that government expenditure must be strictly controlled and proper financial management and financial discipline must be	Inauguration of Raw Material Cultivation Program It was planned to start the National Festival on Cane Cultivation under the chairmanship of His Excellency the President and	Government expenditure should be strictly controlled.

maintained. An expenditure of Rs.6,206,150 was incurred for the State Festival on Commercial Cane Cultivation held on January 21, 2021 in Ralmaduwa Village Officer Division, Vanathavilluwa, Puttalam.

the Prime Minister and that Rs. 4.00 million was spent for this purpose in the annual action plan and Rs. 2.00 million was spent to prepare a documentary program to provide Island-wide publicity.

3.2 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
As on 31 December 2021, copper stocks of Rs.280,509, clay stocks of Rs.343,500 and stock balances of Rs.6,614,940 purchased from craftsmen for sale had not been confirmed by the survey reports.	That the remaining stock of copper and clay could not be accounted for in the final stock and accordingly instructions have been given to make the relevant corrections and that no sale has taken place since it was purchased for Lakshilpa outlet at Waragoda Ceramic Center on 31 December 2021 and the that there was not enough time to ascertain by Board of Survey.	All stocks owned by the council should be done a physical verification.

3.3 Operational Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Among the objectives of the Act of the Council, increasing the production of industrialists by making available local raw materials for handicrafts is a main objective and to implement the objectives of providing scarce raw materials for craftsmen and organizing those activities, the council had established 9 raw material banks in the year 2021 according to the provinces. For that, equipment worth Rs. 10,566,280 had been purchased.. After repairing the buildings required for the	Since the repairs are being carried out by the Divisional Secretariat, instructions have been given to deliver the equipment to the respective locations immediately after the repairs are completed.	Before purchasing the goods, the basic actions required to install them should be completed.

establishment of raw material banks, the related machinery should be provided, but the equipment purchased for 9 raw material banks (excluding the northern and eastern provinces) was not able to be released to the relevant centers and was stored at the Waragoda Training Center as of the date of this report.

- (b) In the year 2021, out of 85 training centers owned by the National Crafts Council, only 56 training centers had implemented training courses. Although 737 apprentices had been initially recruited for 70 training courses in the year 2021, the number of apprentices had reduced to 350 by September 2021. At the end of 27 training courses, the council had failed to produce any trained apprentices. Out of 17 handicraft training courses introduced by the council, only 6 courses had been given NVQ qualifications and the council had failed to upgrade other existing courses to NVQ level. In the revised budget of the year 2021, a provision of Rs. 9,000,000 had been allocated for the provision of training allowances, raw materials and equipment related to training courses, but a provision of Rs. 6,091,227 remained.
- That the arrival of apprentices has been greatly reduced due to the Corona epidemic and that there are plans to produce more apprentices in the year 2022. That the council is working to obtain NVQ for 11 other courses, and although the provision of Rs.9 million had been allocated in the year 2021, due to the Corona epidemic situation, it was not possible to conduct continuous training courses, the allocation was left for apprentice allowances and raw materials and equipment.
- Efforts should be made to utilize the provisions to the maximum extent and implement training in all the centers.

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) Although Crafts Council did the procurement process to compile the e-marketing process, only the necessary hardware for the sales solution system was purchased at a cost of Rs.3,010,450. Although the students of Sri Jayawardenepura University had created a basic level website, due to the fact that the software of the sales solution system was not adjusted to suit the hardware, the marketing activities had not been successful even though they had incurred a cost of Rs.6,614,245 including advertising expenses.	A basic level software was prepared and presented by the relevant organization to suit the hardware of the purchased sales solution system and its improvements are being made these days.	The software and hardware of the sales solution system should be adjusted to make the marketing activities successful.
(b) Under the ministerial provisions of the year 2021, the work of planting plants for the implementation of flax cultivation programs related to elephant fence in Mahaweli B and L zones had been given to the Civil Defense Department. 177,000 flax plants were provided for Mahaweli B zone by the council at a cost of Rs.10,805,778, but according to the information received from the audit from the Civil Defense Department, only 148,000 flax plants were handed over to the department and only 144,000 of them were planted. The Department of Civil Defense had planted only 71,800 plants despite the fact that 145,000 had been	The civil defense department did not accept the hemp plants bought by the National Crafts Council for Mahaweli B and L zones and all those plants were accepted by the extension officers of the National Crafts Council.	The Civil Defense Department and the Council should work in good coordination.

purchased for Mahaweli Lagoon. Accordingly, the information related to the remaining 102,200 plants purchased for Rs.6,754,200 had not been submitted to the audit.

3.5 Idled or underutilized property, plants and equipment

Audit Observation	Comments of the Management	Recommendation
<p>The Sigiriya Handicraft Village, which consists of 18 work shops, a showroom, an office building, a hostel and buildings for sanitary facilities on an area of 1.1165 hectares owned by the Crafts Council, had been handed over to the Crafts Council in the year 2013 by a deed of assignment by the Dambulla Regional Secretary at a valuation of Rs.47,750,000. owned by the council</p>	<p>That the activities related to maintaining the existing market in the village under public private partnership will be done in the future.</p>	<p>The assets of the council should be used for effective investments.</p>

3.6 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>According to clause 6.6.1 (a) of the approved recruitment procedure of the National Crafts Council dated 9 December 2011, an officer recruited in grade II of the management service category can be promoted to grade I after a minimum of 10 years of service in the same grade, and in accordance with section 4 of the procedure, a minimum of grade 1 in the senior management service category, after 5 years of experience can be promoted to the post of Director. But contrary to that, the current director of the council, who was</p>	<p>A letter dated 25 October 2021 has been forwarded to the Department of Management Services for instructions regarding necessary corrections and clarifications, and necessary steps will be taken based on the instructions received.</p>	<p>Action should be taken according to the Instructions of the circular of Management Service Department and approved recruitment procedures.</p>

promoted to the position of deputy director in grade II on 23 November 2009, was promoted to grade 1 from 01 January 2012, and within 4 years from the date of her appointment to the position of director from 15 May 2015. Due to this, the salary level for the post from the year 2012 to the year 2021 had not been established. But from the year 2015 to the year 2021, an amount of Rs. 1,174,620 had been obtained as fuel allowances for the post of director who was promoted without meeting the required qualifications.

4. Accountability and Good Governance

4.1 Action Plan

Audit Observation	Comments of the Management	Recommendation
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<p>Rs.88,418,841 which 45 percent of the total allocation of Rs 192,587,697 of the action plan prepared for the Ministry funds for the year 2021 had been allocated for implementation of cultivation programmes. This amount of money had been allocated without monitoring the time taken to get the raw materials, the possible harvest, the need of the craftsmen.</p>	<p>That the action plan has been given ministerial approval.</p>	<p>Allocation of provisions and planning should be done so that the main objectives of the council are fulfilled.</p>